

Alberta Eastern Gas Limited

1200 Western Union Insurance Building
640 Eighth Avenue S.W.
Calgary, Alberta, T2P 1G7
Telephone 261-7040

LISTED

Toronto Stock Exchange
Alberta Stock Exchange
Montreal Stock Exchange

DIRECTORS

W. J. Bushnell, Toronto, Ontario
R. A. McCullough, Calgary, Alberta
A. D. Rogan, Calgary, Alberta
F. G. Vetsch, Calgary, Alberta
John T. Wood, Calgary, Alberta

OFFICERS

F. G. Vetsch, President and
Chief Executive Officer
R. A. McCullough, Vice President
and Treasurer
A. D. Rogan, Vice President, Production
D. A. Finlay, Secretary



File

**ALBERTA EASTERN GAS
LIMITED**

Interim Report

Six Months ending December 31, 1975

REPORT TO SHAREHOLDERS

Financial

We are pleased to present the operating results for Alberta Eastern Gas Limited for the first six months of fiscal 1976, ending December 31, 1975. This report includes the unaudited Statement of Earnings & Retained Earnings, the Statement of Changes in Financial Position and the Balance Sheet. These results, consistent with our forecasts, will lead to continued expansion of exploration, development and property acquisition.

By comparison with fiscal 1975 for the same period, the financial results are summarized below:

Gas & Oil sales before royalty deductions increased from \$2,520,000 to \$7,149,000, a gain of 184 percent;

Cash flow from operations rose from \$1,647,000 to \$4,447,000, a growth of 170 percent;

Net earnings after provision for deferred income tax increased from \$964,000 to \$2,862,000, a gain of 197 percent.

As a matter of interest and information, we are pleased to advise that the Company's unaudited cash flow and earnings for the calendar year to December 31, 1975 were, respectively, \$1.59 and \$1.01 per share.

We anticipate continued growth for the last half of our current fiscal year ending June 30, 1976.

Gas Production and Prices

During the six month report period, gas production averaged 48.6 MMcf per day compared to 36.4 MMcf per day during the same period of fiscal 1975, a gain of 33 percent. The addition of new facilities and wells which commenced production about November 1, 1975 will maintain producing rates above 50 MMcf to the end of the current fiscal year.

During the report period, field gas prices improved to 74 cents per Mcf on August 1, 1975 and to about 97 cents per Mcf on November 1, 1975. This new gas price will hold at the current level until June 30, 1976.

In accordance with Federal-Provincial agreements, we expect the gas price to rise from the current 85 percent of commodity value to 90 percent, effective July 1, 1976. If current talks between Ottawa and the provinces result in an increase in oil price on July 1, 1976, we expect a coincidental rise in gas price under the commodity value relationship.

Exploration and Land Acquisition

Over the last twelve months the Company has been engaged in expanded land acquisition and exploratory drilling. Most of the effort has been concentrated in Northwestern Alberta in search of "shallow gas", the

Bluesky Formation being of principle interest. Since July, 1975, sixteen wells have been drilled on holdings of 264,000 gross acres. Nine have been cased as potentially productive wells. In several areas there is sufficient concentration of such wells to indicate possible commercial production. In these areas, land interests will be maintained and further evaluation and drilling will be pursued later this year.

Elsewhere, AEG drilled or participated in the drilling of seven exploratory wells. These included five dry holes, one gas well and one oil well.

In Northeastern British Columbia, the Company acquired a one-third interest in approximately 63,658 acres located in the Gundy Creek and Sikanni Chief areas, both in proximity of commercial gas fields near the Alaska Highway.

In the United States, the Company has taken a five percent interest in a deep exploratory well in the Moroni area of Central Utah. This well will be started in early 1976 to test all formations down to and including the Jurassic Nugget zone at about 18,000 feet.

Acquisitions

The Company and Kenting Limited as equal partners, have received approval of an offer to acquire from Canada Geothermal certain assets of Geothermal including approximately 70 percent of the outstanding common stock of Alberta Petroleum and Resources Ltd. at \$1.25 per share. A general offer to all of the shareholders of Alberta Petroleum and Resources is being made coincident with the offer to Geothermal. There are about 1,000,000 shares of Alberta Petroleum outstanding.

Successful acquisition of this company will provide both immediate new income and attractive development properties in the South Eastern Alberta shallow gas area.

Dividends

The Company confirms that it will pay a dividend of 10 cents per share on May 1, 1976 to all shareholders of record on April 2, 1976. It is intended further to pay 10 cents per share semi-annually thereafter.

On behalf of the Board of Directors



F. G. Vetsch
President and Chief Executive Officer

February 19, 1976

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Six Months Ended December 31, 1975

(With Comparative Figures for 1974)
(UNAUDITED)

| | 1975 | 1974 |
|-------------------------------------------------------------|---------------------------|---------------------------|
| Revenue | | |
| Sale of gas and oil production | \$7,148,981 | \$2,520,157 |
| Less: Royalties | 1,657,894 | 482,686 |
| | 5,491,087 | 2,037,471 |
| Interest | 3,419 | 91,676 |
| Other income | 2,872 | — |
| | <u>5,497,378</u> | <u>2,129,147</u> |
| Expenses | | |
| Production | 573,922 | 348,508 |
| Freehold mineral tax | 258,260 | — |
| General and administrative | 183,544 | 125,766 |
| Engineering and consulting | 36,589 | 7,919 |
| Interest | 1,151 | — |
| Depletion and depreciation | 380,900 | 225,600 |
| | <u>1,434,366</u> | <u>707,793</u> |
| Earnings before income taxes | 4,063,012 | 1,421,354 |
| Deferred income taxes | 1,201,000 | 457,500 |
| Net earnings for the period | 2,862,012 | 963,854 |
| Retained earnings at beginning of period | 6,706,371 | 3,530,251 |
| Retained earnings at end of period | <u><u>\$9,568,383</u></u> | <u><u>\$4,494,105</u></u> |
| Earnings per share | | |
| (Based on weighted average number of shares outstanding) | | |
| Earnings for the period | <u>57.3c</u> | <u>19.4c</u> |

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended December 31, 1975

(With Comparative Figures for 1974)

(UNAUDITED)

| | 1975 | 1974 |
|--------------------------------------------------------------------|-------------------|--------------------|
| Source of working capital | | |
| Operations | | |
| Earnings for the period | \$2,862,012 | \$ 963,854 |
| Add charges not requiring working capital | 1,584,807 | 683,100 |
| Flow of funds from operations | 4,446,819 | 1,646,954 |
| Issue of capital stock | 120,500 | — |
| Disposal of properties | 3,897 | — |
| Provincial tax rebates | 267,681 | — |
| | <u>4,838,897</u> | <u>1,646,954</u> |
| Application of working capital | | |
| Property, plant and equipment | 4,182,157 | 5,326,797 |
| Increase (Decrease) in working capital for the period | 656,740 | (3,679,843) |
| Working capital (Deficiency) at beginning of period | (65,055) | 2,254,423 |
| Working capital at end of period | \$ 591,685 | \$1,425,420 |

BALANCE SHEET AS AT DECEMBER 31, 1975

(With Comparative Figures for 1974)

(UNAUDITED)

| | 1975 | 1974 |
|---------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and short term bank deposits | \$ 2,272,608 | \$ 1,328,885 |
| Accounts receivable | 2,444,735 | 1,475,903 |
| | <u>4,717,343</u> | <u>2,804,788</u> |
| Property, plant and equipment - at cost | | |
| Natural gas and petroleum leases reservations and rights including development and equipment thereon | 27,101,681 | 20,829,231 |
| Accumulated depletion and depreciation | 1,775,279 | 1,072,662 |
| | <u>25,326,402</u> | <u>19,756,569</u> |
| Other Assets - at cost | 30,052 | 30,375 |
| | <u>\$30,073,797</u> | <u>\$22,591,732</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued charges | \$ 4,125,658 | \$ 4,230,208 |
| Deferred income taxes | 5,556,156 | 3,210,919 |
| SHAREHOLDERS' EQUITY | | |
| Capital Stock: | | |
| Authorized: | | |
| 7,500,000 common shares of no par value | | |
| Issued: | | |
| 5,015,000 Shares (4,975,500 - 1974) | 10,823,600 | 10,656,500 |
| Retained Earnings | 9,568,383 | 4,494,105 |
| | <u>20,391,983</u> | <u>15,150,605</u> |
| | <u>\$30,073,797</u> | <u>\$22,591,732</u> |